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SUBJECT: HIGHER COPPER PRICES, BUMPER MAIZE CROP LIFT  
ZAMBIA'S ECONOMIC PROSPECTS

REF: LUSAKA 339

SUMMARY

1. (SBU) Amid signs of economic recovery, Embassy contacts expressed cautious optimism that Zambia may have turned from crisis to stability and growth. Copper prices have risen over 100 percent from their lows in early 2009, reviving the moribund sector and spurring export growth. Zambia recorded a bumper maize harvest, with a projected 600,000 ton surplus of its staple crop. The Kwacha has stabilized and strengthened 12.5 percent from its 2009 low to under 4,900 Kwacha per dollar. Food surpluses and a strengthened Kwacha could ease inflationary pressure through the end of the year. The Zambian Government (GRZ) revised its GDP growth forecast to 4.5 percent, although other observers expect growth to be somewhat lower. Government revenues were down almost 25 percent in the first half of 2009, mainly due to lower revenue from trade and a delay in budget support from donors. The GRZ drew on an IMF facility to make up some of the difference to maintain expenditures, and Ministry of Finance and National Development (MFND) contacts told us that a pickup in economic activity in the second half of the year should make up revenue shortfalls. End Summary.

GRZ Expects 4.5 percent GDP Growth

2. (SBU) The Minister of Finance and National Development reported to Parliament at the end of July that the GRZ projected 4.5 percent GDP growth in 2009, an improvement over the June projection of 4 percent growth, but lower than the 5 percent growth projected at the beginning of the year. The Minister reported that government revenue was down by almost 25 percent through June, mainly due to lower trade and delays in disbursement of donor budget support funding. Lower revenues put pressure on government spending, especially the GRZ's capital expenditure program.

3. (SBU) IMF ResRep Birgir Arnson told econoff that the GRZ had drawn on its IMF reserve facility and pledged the drawn amount to a loan from the Bank of Zambia (BoZ) to cover about 33 percent of the revenue shortfall and maintain its spending program. Arnson estimated that the 2009 budget deficit would increase to 3.2 percent from 2.6 percent of GDP, with a commensurate increase in domestic financing. Arnson said that the GRZ's public debt was well-contained at less than 25 percent of GDP and that there was little risk of debt distress.

4. (SBU) Arnson suggested that the GRZ was being a bit optimistic in its 4.5 percent GDP growth projection, saying that the IMF projected about 4 percent growth. The Economist Intelligence Unit (EIU) also revised its growth projection for Zambia to 2.6 percent GDP growth in 2009 from the previously projected 0.8 percent contraction.

A Rising Copper Price Lifts All Boats

15. (SBU) World copper prices have rebounded from a low of about USD 1.20/lb to over USD 3.00/lb in August, spurring production and export growth in the sector and leading to a USD 71 million trade surplus in July. Nathan Chishimba, the Chairman of the Chamber of Mines, told emboff that a soft recovery in global demand and production issues in Chile and Mexico was driving price recovery. He expected prices to soften to about USD 2.5/lb by the end of the year but said that, at that price, even Zambia's most inefficient mines, which have a production cost of around USD 2.0/lb, could remain productive and profitable.

16. (SBU) Hanson Sindowe, Chairman of Copperbelt Energy Corporation (CEC), which supplies electricity to the Copperbelt told econoff that many of Zambia's mines overreacted to the drop in prices, and were now scrambling to come back online. CEC lost about 25 percent of its load in early 2009, but Sindowe predicted that CEC's load would return to its pre-crisis levels by the end of the year as mines increase production and the Luanshya mine emerges from "care and maintenance."

17. (SBU) While the mining sector represents about 8 to 10 percent of the GDP, Savior Chibiye, Managing Director of Citibank in Zambia, said that the ancillary benefits to the economy, in services, equipment, transport, energy and labor, could not be overstated. Chishimba agreed, describing what he called the "Plane and Hotel Index." Chishimba knows that things are going well when he has difficulty booking flights to and hotels in Ndola. After nearly empty flights and hotels in early 2009, he said, booking has once again become

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a problem because "everything is sold out."

Kwacha Stabilizes -- Could Further Strengthen in Short Term

18. (SBU) After falling to over 5,600 per dollar in early 2009 due to low copper prices, capital flight and delays in donor funding, the Kwacha stabilized and has strengthened to under 4,900 Kwacha per dollar. Increased copper exports combined with lower consumption (thus lower imports) eased pressure on the Kwacha. Citibank's Chibiye said that the financial sector has also seen the return of some foreign portfolio investment after foreign investors withdrew almost half of their estimated USD 200 million in late 2008 and early 2009. He speculated that the Kwacha could further strengthen to about 4,600 per dollar but said that he expected the longer-term rate to fall somewhere between 5,000 and 5,500 Kwacha per dollar.

19. (SBU) After depleting its reserves to smooth exchange rate volatility, the Bank of Zambia (BoZ) utilized a portion of a USD 280 million IMF reserve support facility to increase its reserves to over USD one billion. ResRep Arnson expected that Zambia's USD 600 million Special Drawing Rights (SDR) facility could be in place by the end of September resulting in five months import coverage, which he said should allow the BoZ to better manage exchange rate volatility.

Bumper Maize Crop Could Boost Exports, Ease Inflation Pressure

10. (SBU) Zambia recorded an estimated 1.88 million ton maize crop in 2009. With domestic consumption at about 1.3 million tons, the country should have a surplus of almost 600,000 tons. Market observers expect the surplus to ease corn meal prices and allow for significant maize exports. The GRZ announced that it will lift the maize export ban for an initial 100,000 tons of exports, but the GRZ is expected to allow further exports, as the domestic market cannot absorb a 500,000 ton surplus.

11. (SBU) ResRep Arnson expects inflation to ease somewhat,

due to lower maize prices and a strengthened and stable Kwacha. Inflation has already dropped to 14 percent from 14.7 percent in May. He said that if conditions continue, the GRZ could get close to its 2009 target of 10 percent inflation. Separately, an MFND official told us that the revised 4.5 percent GDP growth projection was based on 13.8 percent inflation.

COMMENT

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¶12. (SBU) The doom and gloom economic scenarios of just a few months ago have been replaced with cautious optimism. While the Zambian economy remains vulnerable to world copper price volatility and structural weaknesses, we expect that improved copper prices, coupled with a strong maize harvest, mean Zambia is on a fairly rapid economic rebound.  
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